

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Date: 1/24/97

Signature: [REDACTED]

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: CP:E:EO:T:3

Date:

NOV 25 1996

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

The information submitted indicates that [REDACTED] (hereinafter [REDACTED]) was incorporated under the [REDACTED] on [REDACTED] and that your articles of incorporation were amended and restated on [REDACTED]. Under your amended by-laws your Board of Directors consists of [REDACTED] Directors, all of whom are appointed by [REDACTED]. You are funded through a [REDACTED] line of credit from the [REDACTED]. Your stated purposes are to teach local school volunteers, parent-teacher associations and organizations qualified under section 501(c)(3) of the Internal Revenue Code of 1986 how to raise funds, principally through the use of voluntary support services, to support the purposes of the [REDACTED] and to provide scholarships, on a nondiscriminatory basis, to students in grade school through high school.

In furtherance of your purpose of educating other organizations in fund raising techniques you will provide educational and training support services on the use of a [REDACTED] fundraising program to qualified non-profit organizations. In conjunction with your educational activities, you will market and administer [REDACTED] on a national level. The primary source of your funding will be commissions from these programs.

A [REDACTED] is a fundraising device whereby participating merchants issue gift certificates at a discount to

[REDACTED]

non-profit entities. The certificates are then sold by the non-profit organization to its members at face value. The [REDACTED] is used by the member to buy goods from the issuing merchant. The difference between the discounted purchase price and the face value sale price represents the non-profit organization's proceeds from the program. You will negotiate the [REDACTED] discount with each participating merchant and arrange for bulk purchases of the gift certificates. The certificates are then sold in smaller denominations to participating non-profit organizations. You will receive approximately [REDACTED] % of the total gross redemption price of the certificates sold.

You have also negotiated a [REDACTED] credit card program with [REDACTED]. As part of the agreement you have granted an exclusive right to [REDACTED] to use the trademark, name, design and logo of your organization in connection with the issuance of bankcards, and will provide the bank with mailing lists identifying the names of and contact information for the non-profit organizations associated with your [REDACTED] program. Under the contract you are required to promote the card to your [REDACTED] customers and solicit your customers on behalf of the bank. In furtherance of your agreement, your education and training representatives have conducted a series of regional seminars introducing the "[REDACTED]" program to your [REDACTED] customers, utilizing a training video and other training materials.

Under the agreement you and your customer organization will share a commission based on a rebate of a portion of each card's annual membership fee and a rebate of a percentage of the purchases made with each card. Under the agreement, you and your customer organization will each receive [REDACTED] % of the \$[REDACTED] annual fee rebate for each card. [REDACTED] will also rebate [REDACTED] % of the gross purchases of goods or services using the [REDACTED]. The customer organization will receive [REDACTED] % of the [REDACTED] purchase rebate and you will receive [REDACTED] % of the [REDACTED] purchase rebate.

Approximately [REDACTED] % of the non-profit affiliates participating in your [REDACTED] programs are affiliated with the [REDACTED]. A similar percentage of your time and efforts are directed at those affiliated organizations, and approximately [REDACTED] % of your gross receipts are from sales to those affiliated organizations. The remaining [REDACTED] % of your activities and gross receipts are related to organizations which are not affiliated with [REDACTED].

Your headquarters staff handle the administration of the [REDACTED] program inventory and the distribution of approved gift certificates to registered nonprofit affiliates. Your headquarters staff also provide telephone operators, toll-free phone and fax, order processing, inventory fulfillment, shipping,

tracking and computerized database accounting systems. Currently, there are approximately [redacted] organizations in [redacted] states and the District of Columbia participating in your [redacted] programs. You have projected your sales volume to be approximately \$[redacted], and your gross income to be approximately \$[redacted] for the period [redacted].

You are obligated, pursuant to your articles of incorporation, to support the purposes of [redacted]. You are not required to pay over any portion of your income directly to [redacted]. However, your board of directors has approved a non-binding statement of policy intent, that [redacted] of any net annual proceeds accruing to the benefit of your organization will, at the discretion of the board, be allocated as a restricted contribution to [redacted] to further its charitable and educational purposes.

Your Board of Directors is currently in the process of developing an [redacted] scholarship program. Although it is intended that the recipients of these scholarships will be associated with your organization, the recipients will be chosen on the basis of non-discriminatory criteria. You intend to formally establish this program early in [redacted]. The administration and distribution of these educational funds will be directed by a Board appointed scholarship committee composed of the [redacted], [redacted], and [redacted] and a representative of your organization. Prior to the establishment of your formal program you made ad hoc scholarship awards in [redacted]. You have expended \$[redacted] in [redacted] and \$[redacted] in [redacted] in student aid/scholarship assistance to needy individual employees and/or their dependents. The grants ranged from \$[redacted] to \$[redacted]. You have estimated that your scholarship awards will be approximately \$[redacted] in both [redacted] and [redacted].

Section 501(c)(3) of the Internal Revenue Code (hereinafter "Code") provides exemption from federal income tax to organizations organized and operated exclusively for charitable, educational or other exempt purposes; no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations (hereinafter "Regulations") provides that in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section.

Section 1.501(c)(3)-1(c)(1) of the Regulations provides that an organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in

activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(e)(1) of the Regulations provides that an organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes.

Section 502(a) of the Code provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt from taxation under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501.

Section 502(b) of the Code provides that:

For purpose of this section, the term "trade or business" shall not include--

- (1) the deriving of rents which would be excluded under section 512(b)(3), if section 512 applied to the organization,
- (2) any trade or business in which substantially all the work in carrying on such trade or business is performed for the organization without compensation, or
- (3) any trade or business which is the selling of merchandise, substantially all of which has been received by the organization as gifts or contributions.

Section 1.502-1(a) of the Regulations provides that in the case of an organization operated for the primary purpose of carrying on a trade or business for profit, exemption is not allowed under section 501 on the ground that all the profits of such organization are payable to one or more organizations exempt from taxation under section 501. In determining the primary purpose of an organization, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities of such organization which are specified in the applicable paragraph of section 501.

Section 1.502-1(b) of the Regulations provides, in part, that the subsidiary organization is not exempt from tax if it is operated for the primary purpose of carrying on a trade or business which would be an unrelated trade or business (that is, unrelated to exempt activities) if regularly carried on by the parent organization.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exercise or performance by an organization of the purpose or function constituting the basis for its exemption.

Section 513(h) (1) (B) of the Code provides that in the case of an organization which is described in section 501, the term "unrelated trade or business" does not include any trade or business which consists of (1) exchanging with another such organization names and addresses of donors to (or members of) such organization, or (2) renting such names and addressed to another such organization.

Section 1.513-1(b) of the Regulations states, in part, that for the purpose of section 513, the term "trade or business" generally includes any activity carried on for the production of income from the sale of goods or performance of services.

Section 1.513-1(d) (2) of the Regulations provides that a trade or business is "related" to exempt purposes only where the conduct of the business activity has a causal relationship to the achievement of any exempt purpose, and is "substantially related" for purpose of section 513, only if the causal relationship is a substantial one. Thus, for the conduct of a trade or business from which a particular amount of gross income derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services for which the gross income is derived must contribute importantly to the accomplishment of the purpose.

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945), the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption regardless of the number or importance of truly exempt purpose.

In B.S.W. Group, Inc. v. Commissioner, 70 TC 352 (1978), the Tax Court held that an organization offering consulting and research services for a fee to various nonprofit organizations did not qualify for exemption under section 501(c)(3) of the Code. Several factors were listed by the court as militating

against exemption. The organization's financing did not resemble that of the typical 501(c)(3) organization in that it did not solicit or receive voluntary contributions from the public. Its only sources of income were fees for services. Other negative factors were the manner in which the organization's activities were conducted, the commercial hue of the activities and the existence and amount of annual or accumulated profits.

Rev. Rul. 73-164, 1973-1 C.B. 223, provided that a church-controlled commercial printing corporation whose business earnings are paid periodically to the church, but which had no other significant charitable activity, was a feeder organization as described in section 502 of the Code and did not qualify for exemption under section 501(c)(3).

In that revenue ruling, the organization was a charitable corporation formed by a church to promote and provide financial support for the charitable programs of the church through the performance of certain printing functions for the church and the production of income for church use. It sought to accomplish these charitable objectives by printing religious materials for the church at cost and, in addition, derived substantial profit from the operation of a commercial printing business. The publication function performed for the church accounted for approximately 10 percent of the overall publishing activities of the organization. All of its profits were derived from the commercial printing business. In accordance with an express requirement in the articles of incorporation, all the net income of the organization is paid over to the church at the end of each calendar quarter of operation.

The Service held that although the organization may be said to be organized and operated exclusively for charitable purposes by virtue of the fact that the beneficial use of all of its assets was effectively dedicated to exclusively charitable objects, its only basis for qualifying in that respect, apart from the relatively insignificant amount of printing performed at cost for the church, was that all of its profits were required to be paid to the church. Since the organization had no other significant charitable activity and its principal income-producing activity was the conduct of a trade or business, it was held that it was precluded from exemption under section 501(c)(3) by reason of section 502.

Compare, the above to the situation in Rev. Rul. 68-26, 1968-1 C.B. 272, which provided that a nonprofit organization controlled by a church to print and sell educational and religious material to the church's parochial school system was not a feeder organization defined in section 502 of the Internal Revenue Code of 1954 when it sold the material at a profit which

was returned annually to the parochial school system. Thus, it could be exempt from Federal income tax under section 501(c)(3) of the Code.

In Rev. Rul. 68-26, the organization was incorporated without stock by a church to provide a standardized source of educational and religious material for the church's parochial school system. Its affairs were managed by a board of directors composed of clergymen appointed by the church and responsible to the church for the organization's finances and operations. The organization printed material which was prepared and edited by the school system. The organization sold the material exclusively to the parochial school system. All profits were returned annually to the school system.

Although a technical parent-subsidiary relationship between the church and the organization was lacking because of the nonstock character of the organization, a substantially similar relationship did in fact exist through the control and close supervision of its affairs by the church. In printing material which has been prepared by the parochial school system, the organization was carrying out an integral part of the activities of the church, the parent organization. Accordingly, it qualified for exemption from Federal income tax under section 501(c)(3) of the Code because it was operated as an integral part of the exempt activities of the parent. Furthermore, since the sole source of its profits were sales made to a component of its parent organization, the profits were essentially a matter of accounting among the organizations involved and thus, it was not a feeder described in section 502 of the Code.

Rev. Rul. 71-581, 1971-2 C.B. 236, provided that the operation of a separately incorporated thrift shop to raise funds for a group of specified exempt organizations could qualify for exemption under section 501(c)(3) of the Code. Qualification for exemption under section 501 of the Code was not precluded by section 502 of the Code. All of the goods had been contributed and more than half of the work in operating the thrift shop was performed without compensation. Paid employees were reasonably compensated for their services. Had the activity been carried on directly by any one of the exempt organizations, any profit therefrom would have been excluded from taxation under section 511 of the Code by the provisions of section 513(a)(3) of the Code. The thrift shop was separately organized in order to insulate the assets of the exempt organizations from any potential liability arising out of the operations of the thrift shop and to permit a separate governing body and organizational structure composed of persons interested in aiding the exempt organizations principally through volunteer work in connection with the operation of the thrift shop.

Rev. Rul. 80-106, 1980-1 C.B. 113, provided that an organization that operated a thrift shop, substantially all the work in the operation of which was performed without compensation, was not a feeder organization within the meaning of section 502 of the Internal Revenue Code. Pursuant to section 502(b)(2) of the Code, the organization was not a feeder organization described in section 502(a) because substantially all the work was performed without compensation. For the same reason, pursuant to section 1.501(c)(3)-1(e)(1) of the regulations, the organization was not organized and operated for the primary purpose of carrying on an unrelated trade or business as defined in section 513.

Your principal activities are the buying and selling of [REDACTED] and the marketing of your [REDACTED] programs to churches, educational institutions and other charitable groups. The primary purpose of these activities is to raise funds to support the purposes of [REDACTED] and to support your scholarship program.

Raising funds through the buying and selling of [REDACTED] is not, in itself, an exempt function. By acting as a middleman or broker in return for a commission based on [REDACTED] activity, you are engaged in an activity solely for the production of income. The activity is not casual, but is systematically and consistently promoted and carried on by paid employees of your organization and, therefore, is a trade or business within the meaning of section 1.513-1(b) of the Regulations.

Buying and selling [REDACTED], in itself, does not directly further any of your exempt purposes, aside from providing the organization with income. The sale of [REDACTED] to non-profit organizations participating in the program is not an integral part of the exempt activities of your organization or of its controlling organization. The activity does not have a substantial causal relationship within the meaning of section 1.513-1(d)(2) of the Regulations to the achievement of any exempt purpose and, therefore, you are engaged in an unrelated trade or business within the meaning of section 513(a) of the Code.

The [REDACTED] operated by your organization is also not an exempt activity. The program does not, in itself, directly further any of your exempt purposes, aside from providing the organization with income.

As part of your agreement with [REDACTED] you will provide the bank with mailing lists identifying the names and contact information for your [REDACTED] customers. Under the agreement you will receive a commission based on a percentage of each card's annual membership fee and the net purchases made with

each card. Under the contract you are required to promote the card to [REDACTED] customers and solicit your customers on behalf of the bank. Revenue derived from a third-party by an exempt organization for the use of its membership or donor lists, other than as a result of a use specifically sanctioned by section 513(h) (1) (B), constitutes unrelated business taxable income.

In addition, you are not merely receiving a commission for the use of your membership or donor lists but are actively engaged in the promotion and marketing of [REDACTED] through a series of regional seminars introducing the [REDACTED] program to your [REDACTED] customers. By promoting and marketing the [REDACTED] in return for a commission you are engaged in an activity solely for the production of income. The activity is not casual, but is systematically and consistently promoted and carried on by paid employees of your organization and, therefore, is a trade or business within the meaning of section 1.513-1(b) of the Regulations.

The promotion and marketing of a [REDACTED] is not an integral part of the exempt activities of your organization or of its controlling organization. The activity has no substantial causal relationship to the performance of your exempt purposes and does not contribute importantly to the accomplishment of those purposes within the meaning of section 1.513-1(d) (2) of the Regulations. The income derived from the trade or business activity is unrelated business taxable income. Therefore, your [REDACTED] program is an unrelated trade or business within the meaning of section 513(a) of the Code.

Section 1.501(c) (3) -1(a) (1) of the Regulations provides that in order to be exempt as an organization described in section 501(c) (3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. Under section 1.501(c) (3) -1(c) (1) of the Regulations an organization will not be regarded as 'operated exclusively' for one or more exempt purposes if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. In Better Business Bureau of Washington, D.C., Inc. v. United States, supra, the Supreme Court held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption regardless of the number or importance of truly exempt purpose.

As set forth above, your [REDACTED] programs are trades or businesses within the meaning of section 1.513-1(b) of the Regulations and constitute unrelated trades or businesses within the meaning of section 513(a) of the Code. The carrying on of unrelated trades or businesses is not an exempt purpose. Since a majority of your time and efforts are devoted to the sale

[REDACTED] and since a majority of your gross receipts are derived from the [REDACTED] and [REDACTED], these activities are substantial activities to your organization. As a result, a substantial part of your activities are not in furtherance of an exempt purpose. Therefore, we conclude that [REDACTED] has a substantial, nonexempt, commercial purpose within the meaning of section 1.501(c)(3)-1(c)(1) of the Regulations and is not operated exclusively for one or more exempt purposes within the meaning of section 1.501(c)(3)-1(a)(1) of the Regulations.

Section 1.501(c)(3)-1(e)(1) of the Regulations provides that an organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513. As in B.S.W. Group, Inc. v. Commissioner, supra, the critical inquiry here is whether your [REDACTED] programs have an exempt purpose, or whether the primary purpose for engaging in the programs is that of operating a commercial business.

In B.S.W. Group, Inc., supra, at 357-360, the court examined the commercial activities of an organization providing consulting services in the areas of rural related policy and program development. The court found it relevant to consider: (1) whether the organization's commercial activities relate to an exempt function; (2) the particular manner in which the organization's activities are conducted; (3) the competitive nature of the organization's activities; (4) whether the organization provides some free or below cost services; (5) whether the organization has solicited, or received, voluntary contributions from the public; (6) the existence and amount of annual or accumulated profits; and (7) whether the organization's clientele are limited to other section 501(c)(3) organizations. Analyzing the organization's consulting activities in view of these factors, the court found that the organization was not described in section 501(c)(3) because its primary purpose was commercial rather than educational, scientific or charitable.

Like the consulting services provided by the organization in B.S.W. Group, Inc., supra, conducting training programs and acting as a middleman or broker are activities normally undertaken as commercial activities and, therefore, do not, in themselves, directly further an exempt purpose. Accordingly, conducting training programs in how to raise funds and acting as a broker whose primary function is [REDACTED] do

[REDACTED]

not, aside from providing your organization with income, relate to an exempt function.

As set forth above, you are actively engaged in the promotion and marketing of a [REDACTED] program. By promoting and marketing the [REDACTED] in return for a commission you are engaged in an activity solely for the production of income that does not, in itself, directly relate to any of your exempt purposes, aside from providing your organization with income.

Although you have, through your articles of incorporation, limited participation in your programs to organizations "qualified under section 501(c)(3) of the Internal Revenue Code, your [REDACTED] programs are being conducted on a nationwide scale. A majority of your time and efforts are devoted to the sale of [REDACTED] and to promoting your [REDACTED] program. A majority of your gross receipts are derived from [REDACTED] sales and from your [REDACTED] program. Currently, there are approximately [REDACTED] organizations in [REDACTED] states and the [REDACTED] participating in your [REDACTED] and [REDACTED] programs. You have projected your sales volume to be approximately \$[REDACTED], and your gross income to be approximately \$[REDACTED] for the period [REDACTED]. The above factors indicate that your [REDACTED] and [REDACTED] programs constitute a large business undertaking. It is apparent from the size and extent of your activities and your financial projections that you expect to make a profit from the sale of [REDACTED] and from the marketing and promotion of your [REDACTED].

Your financing does not resemble that of a typical charitable organization. You do not solicit voluntary contributions from the general public, have not received such contributions and are not dependent on the solicitation of voluntary contributions from the general public for your support. Instead, your [REDACTED] activities are funded primarily through a line of credit from [REDACTED]. Your primary source of revenue is fees generated by your [REDACTED] and [REDACTED] commissions. Your [REDACTED] fees are set by agreement with the [REDACTED] customer and are set at a percentage of the face value of the [REDACTED] sold. Your [REDACTED] commissions are set by contract as a percentage of [REDACTED] sales. Since your fees and commissions are set at a level calculated to cover expenses and to produce a net profit, it appears that you cannot be said to be providing services free or for less than your cost.

The fact that your [REDACTED] and [REDACTED] programs, in themselves, serve no charitable purposes, the size and extent of your business operations and business activities, the manner in which your business activities are conducted, the commercial hue

[REDACTED]

of your activities, the nature of your financing and the expectation of profits from your activities suggest strongly that you are operated for the primary purpose of carrying on trades or businesses for profit. Since the trades or businesses are unrelated to your exempt purposes, we conclude that [REDACTED] is operated for the primary purpose of carrying on unrelated trades or businesses within the meaning of section 1.501(c)(3)-1(e)(1) of the Regulations and, therefore, is not operated exclusively for one or more exempt purposes within the meaning of section 1.501(c)(3)-1(a)(1) of the Regulations.

Section 502 of the Code provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt from taxation under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501. Under section 502 the central question to be resolved is whether an organization operates for the primary purpose of carrying on a trade or business for profit. Determination under section 502 is essentially a factual determination. As noted in section 1.502-1(a) of the Regulations, in determining whether the primary purpose of an organization is to carry on an unrelated trade or business all circumstances must be considered including the size and extent of the trade or business and the size or extent of the activities.

A parent-subsidiary relationship between [REDACTED] or [REDACTED] and [REDACTED] is lacking because of the nonstock character of your organization. However, like the relationship found between the organizations in Rev. Rul. 68-26, a substantially similar relationship does in fact exist. The appointment of all of your directors by [REDACTED] results in control over, and close supervision of, your affairs by the diocese.

The primary focus of the activities of your organization is raising funds by marketing your [REDACTED] and [REDACTED] programs to churches, educational institutions and other charitable groups. Unlike the organization in Rev. Rul. 68-26, supra, by engaging in the marketing of fund raising services you are not carrying out an integral part of the exempt activities of your controlling organization.

As set forth above, the size and extent of your [REDACTED] and [REDACTED] programs indicates large and complex undertakings conducted as trades or businesses for commercial purposes. Unlike the organization in Rev. Rul. 71-581, supra, and Rev. Rul. 80-106, supra, your [REDACTED] and [REDACTED] program marketing

efforts are carried on not by volunteers, but by paid employees of your organization. You are actively engaged in promoting your [redacted] and [redacted] programs through marketing seminars. Your headquarters staff handle the administration of the [redacted] program inventory and the distribution of approved gift certificates to registered nonprofit affiliates. Your headquarters staff also provide telephone operators, toll-free phone and fax, order processing, inventory fulfillment, shipping, tracking and computerized database accounting systems. The size and extent of your business activities and your use of paid employees suggest strongly that you are operated for the primary purpose of carrying on trades or businesses for profit as described in section 1.502-1(a).

You have stated as one of your activities the provision of scholarships, on a nondiscriminatory basis, to students in grade school through high school. In furtherance of this purpose you have expended \$[redacted] in [redacted] and \$[redacted] in [redacted] in student aid/scholarship assistance to needy individual employees and/or their dependents. The grants ranged from \$[redacted] to \$[redacted]. You have estimated that your scholarship awards will be approximately \$[redacted] in both [redacted] and [redacted]. Although the provision of scholarships may be a charitable activity, when viewed in light of the size and extent of your [redacted] and [redacted] businesses and the size and extent of the time, effort and activity involved in a nation-wide business enterprise, the scholarship activity, like the limited charitable activity carried on by the organization in Rev. Rul. 73-164, supra, does not constitute a significant charitable activity.

Like the organization in Rev. Rul. 73-164, your profits are derived from an unrelated business. The primary use of your business profits and your primary charitable purpose is to support the purposes of [redacted]. You are obligated, pursuant to your articles of incorporation, to support the purposes of [redacted] and your board has directed that [redacted] % of your net annual proceeds be remitted to the diocese. Accordingly, we conclude that the [redacted] is a controlled commercial enterprise whose business earnings are primarily to be paid over to its controlling entity and, therefore, is proscribed from exemption under section 501(c)(3) by virtue of being a feeder organization under section 502 of the Code.

Based on the information provided, because you have as a substantial activity the conduct of unrelated trades or businesses, you have a substantial non-exempt purpose within the meaning of section 1.501(c)(3)-1(c)(1). In addition, the size and extent of your commercial activities show that you are

operated for the primary purpose of carrying on unrelated trades or businesses within the meaning of section 1.501(c)(3)-1(e)(1) of the Regulations. Accordingly, you are not operated exclusively for one or more exempt purposes within the meaning of section 501(c)(3) of the Code. Furthermore, you are proscribed from exemption under section 501(c)(3) by virtue of being a feeder organization under section 502 of the Code. Therefore, the [REDACTED] does not qualify for exemption as an organization described in section 501(c)(3) of the Code.

Contributions to you are not deductible under section 170 of the Code.

You are required to file federal income tax returns on Form 1120.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

[REDACTED]

Internal Revenue Service
Attn: CP:E:EO:T:3 Room 6137
1111 Constitution Ave, N.W.
Washington, D.C. 20224

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

~~Edward K. Karcher~~

Edward K. Karcher
Chief, Exempt Organizations
Technical Branch 3

cc: [REDACTED]

bcc: [REDACTED]
[REDACTED]
[REDACTED]

bcc: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Form 1937-A	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
CODE	CP:E:EO:T:3	CP:E:EO:T:3	CP:E:EO:T:3			
Surname	[REDACTED]	[REDACTED]	[REDACTED]			
Date	[REDACTED]	[REDACTED]	[REDACTED]			